

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0327-01
Bill No.: SB 94
Subject: Taxation and Revenue - Income; Tax Credits; Education - Elementary and Secondary
Type: Original
Date: January 21, 2003

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
General Revenue	(\$32,503,488)	(\$17,032,348)	(\$17,458,195)
Total Estimated Net Effect on General Revenue Fund	(\$32,503,488)	(\$17,032,348)	(\$17,458,195)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on Other State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2004	FY 2005	FY 2006
Local Government	\$0	\$0	\$0

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation authorizes a tax credit, up to \$250, for a teacher's expenditures for instructional materials. The tax credit will not be eligible to anyone not filing a timely return. The tax credit is nonrefundable, and can be carried over to the next five succeeding tax years. The taxpayer must qualify as a teacher pursuant to Section 163.011(15), RSMo. The tax credit is effective for tax years on or after January 1, 2002.

DOR stated, in a similar prior fiscal note, the Department of Elementary and Secondary Education indicated there were approximately 61,000 classroom teachers eligible to claim the tax credit. In order to process the tax credit, DOR will need one Tax Processing Technician I for every 4,000 new credits claimed per year and one Tax Season Temporary for every 130,000 credits claimed per year. Also, one Tax Processing Technician I will be needed for every 3,000 pieces of correspondence generated from this legislation. Therefore, in order to maintain the current processing time for all tax returns, DOR will need 15 FTE to process and verify the tax credit.

DOR assumes this legislation will require modifications to the income tax system and credit application system. The Division of Taxation estimates these modifications, including programming changes, will require 1,384 hours of overtime at a cost of \$46,170. Modifications to the income tax return and schedules will be completed with existing resources. State Data

ASSUMPTION (continued)

Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs.

DOR assumes there will be additional administrative costs in FY03 due to the effective date of the legislation (1/1/02). Because most of the tax returns are filed by April 15th, anyone wanting this tax credit will need to file an amended return in order to take the credit on the 2002 tax return. Therefore, the costs shown in FY04 will also be needed in FY03 in order to process the amended returns.

Oversight has, for fiscal note purposes only, changed the starting salary for the fifteen Tax Procession Tech I positions to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research.

Officials from the **Department of Elementary and Secondary Education (DES)** estimate the fiscal impact as follows:

1. Approximately 64,817 classroom teachers would be able to claim up to \$250 in expenses for instructional materials purchased and used in the course of their employment as a teacher.
2. 100% of teachers would incur expenses sufficient to claim the full amount of the credit.
3. The projected fiscal impact would be \$16,204,250 for FY 2004.
4. The number of teachers would increase by 2.5% each year. This percentage is used to project the cost of this credit for FY 2005 at \$16,609,356 and FY 2006 at \$17,024,590.

Officials from the **Office of Administration - Division of Budget and Planning (BAP)** assumes the Department of Elementary and Secondary Education would have the information to estimate the fiscal impact of this tax credit. The proposal would have no impact on BAP.

Section 135.342 states that this proposal is for all tax years beginning on or after January 1, 2002. By the time this proposal could become law, most tax returns for the 2002 tax year will have been filed. Therefore **Oversight** assumes amended returns will be filed to take advantage of this credit. **Oversight** will show a fiscal impact of (\$15,809,024) for these amended returns in FY04.

This legislation will reduce total state revenues.

<u>FISCAL IMPACT - State Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
GENERAL REVENUE FUND			
<u>Loss - General Revenue Fund</u>			
Instructional Materials Credit	(\$16,204,250)	(\$16,609,356)	(\$17,024,590)
Amended returns (2002 tax year)	<u>(\$15,809,024)</u>	<u>\$0</u>	<u>\$0</u>
Total Loss - GR	(\$32,013,274)	(\$16,609,356)	(\$17,024,590)
<u>Cost - Department of Revenue</u>			
Personal Services (15 FTE)	(\$234,450)	(\$295,583)	(\$302,972)
Fringe Benefits	(\$94,882)	(\$119,622)	(\$122,613)
Expenses & Equipment	(\$105,705)	(\$7,787)	(\$8,020)
Reprogramming Costs	<u>(\$55,177)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DOR	<u>(\$490,214)</u>	<u>(\$422,992)</u>	<u>(\$433,605)</u>
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$32,503,488)</u>	<u>(\$17,032,348)</u>	<u>(\$17,458,195)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2004 (10 Mo.)	FY 2005	FY 2006
	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

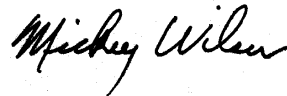
This bill authorizes an individual income tax credit of up to \$250 for instructional materials purchased by a teacher used in the course of employment as a teacher.

The credit will apply to tax year 2002 and thereafter.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Department of Elementary and Secondary Education
Office of Administration
Division of Budget and Planning

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
January 21, 2003